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SUBJECT: OIL OFFICIALS DISCUSS KUWAIT PROJECT,
PRIVATIZATION, GAS DISCOVERY, NEW REFINERY

REF: A. KUWAIT 676

B. KUWAIT 1833

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1. (SBU) Summary. On May 15, 17, and 20, Ambassador met in separate meetings with Kuwaiti officials in the petroleum sector to discuss privatization, Kuwait Project, the planned fourth refinery, investments abroad, and the recent gas discovery. Interlocutors expected that the Kuwait Project would eventually pass the National Assembly, but none were confident of the timing. The privatization of gas filling stations continues to progress, and the recent natural gas discovery, which could be used as feedstock, has encouraged plans to build a third joint-venture petrochemical facility with Dow Chemical. The officials said the planned fourth refinery site has been settled upon, with new refining technologies promising to cut air and water pollution. Kuwait is still studying a joint-venture investment in U.S. refining capacity. End Summary.

2. (SBU) On May 15, 17, and 20, Ambassador met separately with the chief executives from the Petroleum Industries Corporation (PIC), Kuwait National Petroleum Corporation (KNPC), Kuwait Oil Company (KOC), and Kuwait Project (KP) to discuss privatization, Kuwait Project, the planned fourth refinery, investments abroad, and the recent gas discovery. Ambassador also called on Chairman Shaykh Talal Khaled Al-Ahmed Al-Sabah of the recently-formed Oil Sector Services Company (OSSC).

Kuwait Project: GOK "Already Has the Votes"

3. (SBU) All interlocutors said they expected the Kuwait Project to pass the National Assembly (NA) eventually. However, Hashim El-Rifaai, Deputy Chairman and Deputy Managing Director of KP at the Oil Development Company (subsidiary of Kuwait Petroleum Company) was not optimistic about prospects for approval in the near future, stating that approval process was too slow, burdensome, and increasingly uncertain, particularly since the GOK and NA were now entangled in heated public debates on electoral reform and redistricting. (Note: On May 21 the Amir dissolved Parliament. While legally he could issue a decree to approve the Kuwait Project, National Assembly ratification of such a decision or independent approval would not occur before July (Ref B).)

14. (SBU) Al-Rifaai noted that the GOK's decision to forego a parliamentary vote in December was a missed opportunity at a time when approval appeared imminent following extensive consultations with relevant parliamentarians, including the former heads of the NA's Finance and Economic Committee. The January 15 death of Amir Shaykh Jaber Al-Sabah and the ensuing political developments, including the recent debates on electoral reform, further extinguished any hopes of NA consideration and approval for the foreseeable future, he added. He predicted that the project might be approved in November 2006.

15. (SBU) PIC Chairman Al-Shuwaib said he expected it to be voted on "soon," but that the project would remain a political football even after passage. KNPC Chairman Al-Rushaid explained that the main concern of the NA is a fear that the KP would disproportionately benefit the international oil companies (IOCs) instead of Kuwaitis. KOC Chairman Al-Zanki said the GOK "already has the votes" to pass the project, but that he did not understand why the GOK "insists on getting all the votes."

Privatization: Joint-Ventures and Filling Stations

16. (SBU) PIC Chairman Al-Shuwaib, who advised that he is now responsible for all privatization efforts at the Kuwait Petroleum Corporation, said that the success of the EQUATE venture with Dow has encouraged PIC to look for other opportunities abroad, partnered with Dow. He said he envisions PIC's future as becoming a holding company, with all future projects being via joint-venture including private sector equity participation. KNPC Chairman Al-Rushaid noted that the privatization of gas filling stations is "going

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well," and that the second round of privatizing (40 stations) should be completed soon, with the third (and final) round completed by the end of 2006. Al-Rushaid said that although future filling stations will be private, KNPC will regulate the location of any new stations in order to ensure that remote areas are served. KOC Chairman Al-Zanki said that the assistance of IOCs is needed to exploit Kuwait's smaller, undeveloped oil reservoirs, but that he plans to bring them in through joint-ventures rather than a tendering process to avoid controversy like that surrounding the Kuwait Project. (Note: KOC has started detailed talks with all the big IOCs on how to partner, with each company being assigned a particular technical issue.)

Gas Find Encourages Third Petrochemical Venture

17. (SBU) KNPC Chairman Al-Rushaid was "very pleased" with the recent natural gas discovery (Ref A). He said the gas would supply both power plants (demand for electricity will double in 10 years, he said) and the petrochemical industry. KOC Chairman Al-Zanki said that IOCs would be needed to extract the gas, and that he planned to deal directly with them through joint-ventures rather than an open tender process. Al-Zanki also noted that since the gas is classified as "gas condensate," it's extraction would not count against Kuwait's OPEC quota. PIC Chairman Al-Shuwaib said the find has encouraged him to pursue a third EQUATE petrochemical facility, which would use the gas as feedstock.

Fourth Refinery

18. (SBU) According to KNPC Chairman Al-Rushaid, the new refinery, targeted to begin operation in 2010, will be located in Al-Zour, which he described as the most logical site in terms of environmental, logistical, and transportation considerations. Al-Rushaid touted several new technologies to be used in the new refinery, including those

that will produce low-sulfur fuel oil for Kuwait's power plants, which he said will reduce air pollution, and a "closed loop" cooling system to ensure that no effluent water is released back into the sea. All four stages of the project have been tendered, and Al-Rushaid said he expects to receive bids by August 2006. (Note: Chevron is still hoping that an alternative site will be chosen. The planned refinery is now slated to abut their Neutral Zona joint-venture compound.)

Looking Abroad for Investments

¶9. (SBU) PIC Chairman Al-Shuwaib said that PIC and Dow Chemical are pursuing a 50/50 joint-venture with the Chinese government. The project would combine a refinery with a petrochemical facility on the EQUATE model. KNPC Chairman Al-Rushaid said Kuwaiti investment in a new U.S. refinery is "still a prospect," and that because KNPC's policy is not to enter into international projects alone, any investment would be a joint-venture between Kuwaiti Petroleum International (KPI - a KPC subsidiary) and the IOCs. Al-Shuwaib also said that he has heard about upgrades to existing U.S. refineries that could add 1.5-2.0 mbpd of capacity, and in that case was "not sure that there is room for Kuwait." (Note: Separately we have been advised that the KPC is actively exploring feasibility of adding refining capacity in the U.S.)

Courtesy Call on Head of New Services Subsidiary

¶10. (SBU) Ambassador called on Shaykh Talal Khaled Al-Ahmed Al-Sabah, who heads the newly formed Oil Sector Services Company (OSSC). Shaykh Talal's deputy Ali Ahmed Al-Obaid also attended the meeting. OSSC was formed to take control of all non-core services in the oil sector including security, operations of the Ahmadi township, and transportation. (Note: Ahmadi township houses oil sector employees working at the Burgan Field.) The company has more than 500 employees. Shaykh Talal said there are "many gaps" in the security scheme, especially at seaside facilities, but that he has consulted with American and British companies about installing towers and sensors to fill these gaps. According to Al-Obaid, the OSSC will begin construction on a 300 bed hospital in Ahmadi at a cost of 90 million dinars (\$

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315 million) this year. Al-Obaid also said OSSC is finalizing plans to rebuild 3500 Ahmadi houses as part of a Build-Operate-Transfer (BOT) scheme.

Bio Notes

¶11. (SBU) Hashim Al-Rifaai is a long-standing senior GOK oil official, with over 25 years of experience in the oil and gas industry. Prior to assuming his duties in October 2005 as the Deputy Chairman and Managing Director of the Oil Development Company and head of its Kuwait Project initiative, Al-Rifaai served as head of KOC's Corporate Planning Group and Major Projects Group. He speaks excellent English and holds a B.Sc in electrical engineering from Seattle University (class of 1980) and serves on Kuwait University's External Advisory Board and the Council for Private Universities in Kuwait.

¶12. (SBU) Shaykh Talal Al-Ahmed Al-Sabah is the cousin in Energy Minister Shaykh Ahmed Fahed Al-Ahmed Al-Sabah. He is a graduate of Georgetown University and speaks excellent English.

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